

ADDISON FIRE BOARD

AUDIT REPORT

MARCH 31, 2004

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name ADDISON Fire Board	County Lenawee
Audit Date 3/31/04	Opinion Date 7/1/04	Date Accountant Report Submitted to State: 7/22/04	

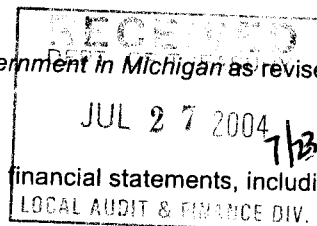
We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.



- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Bailey, Hodshire & Company, P.C.			
Street Address 479 E Chicago St	City Jonesville	State MI	ZIP 49250
Accountant Signature Bailey, Hodshire & Company, P.C.			

## CONTENTS

### INDEPENDENT AUDITOR'S REPORT

### GENERAL PURPOSE FINANCIAL STATEMENTS

Balance Sheet - All Fund Types and Account Groups.....2

Statement of Revenue, Expenditures, and Changes in Fund  
Balances - Budget and Actual - General Fund.....3 - 5

Notes to Financial Statements.....6 - 10

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INDEPENDENT AUDITOR'S REPORT

Addison Fire Board  
Addison, Michigan

We have audited the accompanying general purpose financial statements of the Addison Fire Board as of and for the year ended March 31, 2004. These general purpose financial statements are the responsibility of the Addison Fire Board's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Addison Fire Board, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Bailey, Hodshire & Company, P.C.*

Jonesville, Michigan  
July 1, 2004

ADDISON FIRE BOARD  
BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
MARCH 31, 2004

	Governmental Fund Type	Account Groups			Total (Memo Only)
	General Fund	General Fixed Assets	General Long-Term Debt		
<b>ASSETS</b>					
Cash - checking & savings	\$ 568,396	\$ 0	\$ 0	\$	568,396
Accounts receivable - property taxes	141,827	0	0		141,827
Accounts receivable - fire and ambulance	19,076	0	0		19,076
Vehicles and equipment	0	1,781,374	0		1,781,374
Land and building	0	428,560	0		428,560
Amounts to be provided for general long-term debt	<u>0</u>	<u>0</u>	<u>193,605</u>		<u>193,605</u>
Total assets	<u>\$ 729,299</u>	<u>\$ 2,209,934</u>	<u>\$ 193,605</u>		<u>\$ 3,132,838</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ 48,872	\$ 0	\$ 0	\$	48,872
Accrued payroll	14,972	0	0		14,972
Accrued payroll taxes	768	0	0		768
Note payable - fire truck	<u>0</u>	<u>0</u>	<u>193,605</u>		<u>193,605</u>
Total liabilities	<u>\$ 64,612</u>	<u>\$ 0</u>	<u>\$ 193,605</u>		<u>\$ 258,217</u>
Fund Equity:					
Investment in general fixed assets	\$ 0	\$ 2,209,934	\$ 0	\$	2,209,934
Fund balances:					
Unreserved:					
Undesignated	620,485	0	0		620,485
Restricted	<u>44,202</u>	<u>0</u>	<u>0</u>		<u>44,202</u>
Total fund equity	<u>\$ 664,687</u>	<u>\$ 2,209,934</u>	<u>\$ 0</u>		<u>\$ 2,874,621</u>
Total liabilities and fund equity	<u>\$ 729,299</u>	<u>\$ 2,209,934</u>	<u>\$ 193,605</u>		<u>\$ 3,132,838</u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE BOARD  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
REVENUE			
Fire:			
Municipalities:			
Village of Addison	\$ 17,315	\$ 17,315	\$ 0
Township of Rollin	58,871	58,871	0
Township of Wheatland	20,778	20,778	0
Township of Woodstock	77,917	77,917	0
Village of Cement City	3,500	3,500	0
Interest	1,200	1,094	(106)
Miscellaneous	7,500	2,210	(5,290)
Donations - new station	<u>0</u>	<u>244,650</u>	<u>244,650</u>
Total fire revenue	<u>\$ 187,081</u>	<u>\$ 426,335</u>	<u>\$ 239,254</u>
Ambulance:			
Property taxes	\$ 252,994	\$ 262,819	\$ 9,825
Ambulance fees	75,000	81,212	6,212
Donations and miscellaneous	10,000	10,959	959
Interest	4,500	3,048	(1,452)
Bad debt recovery	<u>750</u>	<u>383</u>	<u>(367)</u>
Total ambulance revenue	<u>\$ 343,244</u>	<u>\$ 358,421</u>	<u>\$ 15,177</u>
Total revenue	<u>\$ 530,325</u>	<u>\$ 784,756</u>	<u>\$ 254,431</u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE BOARD  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
EXPENDITURES			
Fire:			
Wages	\$ 52,500	\$ 46,462	\$ (6,038)
Payroll taxes	4,200	3,480	(720)
Retirement	2,650	2,182	(468)
Contract labor	2,300	2,282	(18)
Operating supplies	4,750	3,527	(1,223)
Office supplies	3,000	2,257	(743)
Vehicle expense	5,000	4,666	(334)
Rent and utilities	15,200	14,588	(612)
Equipment maintenance	8,500	8,209	(291)
Insurance	17,800	17,680	(120)
New station	378,089	363,888	(14,201)
Major equipment	377,420	377,177	(243)
Minor equipment	2,000	1,000	(1,000)
Training	1,750	1,042	(708)
Professional fees	1,000	1,000	0
Debt service	40,000	36,701	(3,299)
Miscellaneous	<u>5,500</u>	<u>5,506</u>	<u>6</u>
Total fire expenditures	\$ <u>921,659</u>	\$ <u>891,647</u>	\$ <u>(30,012)</u>
Ambulance:			
Wages	\$ 225,650	\$ 216,009	\$ (9,641)
Payroll taxes	19,000	16,436	(2,564)
Retirement	8,000	7,419	(581)
Contract labor	9,500	9,126	(374)
Operating supplies	5,000	3,458	(1,542)
Office supplies	3,500	1,669	(1,831)
Vehicle expense	4,250	3,645	(605)
Billing service	3,500	3,220	(280)
Rent and utilities	13,000	12,195	(805)
Equipment maintenance	7,000	6,156	(844)
Insurance	17,994	17,699	(295)
Major equipment	3,750	1,720	(2,030)
Minor equipment	2,600	701	(1,899)
Training	2,000	1,455	(545)
Professional fees	1,000	1,000	0
Uniforms	2,500	1,692	(808)
Miscellaneous	<u>5,000</u>	<u>2,637</u>	<u>(2,363)</u>
Total ambulance expenditures	\$ <u>333,244</u>	\$ <u>306,237</u>	\$ <u>(27,007)</u>
Total expenditures	\$ <u>1,254,903</u>	\$ <u>1,197,884</u>	\$ <u>(57,019)</u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE BOARD  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	\$ (724,578)	\$ (413,128)	\$ 311,450
OTHER FINANCING SOURCES (USES)			
Fire truck loan	\$ 0	\$ 225,000	\$ 225,000
Prior period adjustment	<u>0</u>	<u>119,261</u>	<u>119,261</u>
Total other financing sources (uses)	\$ <u>0</u>	\$ <u>344,261</u>	\$ <u>344,261</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (724,578)	\$ (68,867)	\$ 655,711
FUND BALANCES - APRIL 1, 2003	<u>733,554</u>	<u>733,554</u>	<u>0</u>
FUND BALANCES - MARCH 31, 2004	\$ <u>8,976</u>	\$ <u>664,687</u>	\$ <u>655,711</u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Addison Fire Board was formed by municipalities in the Addison, Michigan area to provide fire protection and ambulance services. It is governed by a board made up of representatives from each of the municipalities. As required by generally accepted accounting principles, these financial statements present all fund types and account groups that are controlled by or dependent on the Fire Board.

Basis of Presentation

The accounts of the Fire Board are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Account groups are a reporting device used to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The various funds and account groups of the Fire Board are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the Fire Board. It is used to account for all financial resources except those required to be accounted for in another fund.

Account Groups

General Fixed Assets Account Group - This account group presents fixed assets of the Fire Board utilized in its general operations.

General Long-Term Debt Account Group - This account group provides for the recording of long-term obligations intended to be financed from governmental funds, and does not involve the measurement of operations.

Total columns on the combined statements are captioned "memo only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; therefore, it is not comparable to a consolidation.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources.

The governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Fire Board considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

Property taxes, municipal contributions, ambulance fees, and interest are susceptible to accrual. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

ADDISON FIRE BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other receipts become measurable and available when cash is received by the Fire Board and are recognized as revenue at that time.

Budgetary Data

The Fire Board adopted a budget for the General Fund on the modified accrual basis. Once approved, the Fire Board may amend the legally adopted budget when modifications are required in estimated revenues and appropriations. The amended budget is presented in these financial statements. Encumbrance accounting is not used and all annual appropriations lapse at fiscal year-end.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Assets, Liabilities, and Fund Equity

Cash and investments are reported at cost.

Accounts receivable consists of gross amounts due from individuals and insurance companies for ambulance services, less estimated contractual adjustments.

Fixed assets are accounted for at cost, or if the cost is not practicably determinable, at estimated cost. Donated fixed assets are recorded at their estimated fair value at the time received. No depreciation has been provided on the general fixed assets.

2. CASH AND INVESTMENTS

Following are the components of the Fire Board's bank deposits at March 31, 2004:

Checking Account	\$ 5,325
Savings Account	477,721
Certificates of Deposit	<u>85,350</u>
	<u>\$ 568,396</u>

The carrying amount of the Fire Board's bank deposits was \$568,396 and the bank's balance was \$597,288 at March 31, 2004. Of the total bank balance, \$258,551 was covered by federal depository insurance and \$338,737 was uninsured.

State statutes authorize the Fire Board to invest funds in one or more of the following: (a) bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of a Federally insured financial institution which maintains a principal office or branch office in the state of Michigan; (c) commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; (d) United States government or Federal agency obligation repurchase agreements; (e) banker's acceptance of United States banks; (f) obligations of the state of Michigan or any of its political subdivisions that are rated as investment grade by not less than one standard rating service; (g) mutual funds registered

ADDISON FIRE BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

2. CASH AND INVESTMENTS (continued)

under the Investment Company Act of 1940 with the authority to purchase only investment vehicles which are legal for investment by a public corporation; (h) obligations described above if purchased through an interlocal agreement under the Urban Cooperations Act of 1967; (i) investment pools organized under the Surplus Funds Investment Pool Act, 1982; (j) investment pools organized under the Local Government Investment Pool Act, 1985. As of March 31, 2004, the Fire Board's investments are in accordance with statutory authority.

3. PROPERTY TAXES

A voted millage of 1.0 mill (subject to Headlee rollback limitations) is levied in each of the three townships for which the Fire Board provides services. Property tax revenue is recorded in an amount equal to the total taxes levied, which was \$250,594 for tax year 2003. The Fire Board also receives a portion of a .25 mill ambulance levy in Hillsdale County (\$12,225 for the year).

4. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance 4/1/03	Additions	Deletions	Balance 3/31/04
Vehicles and equipment	\$ 1,401,952	\$ 379,422	\$ 0	\$ 1,781,374
Land and buildings	<u>64,672</u>	<u>363,888</u>	<u>0</u>	<u>428,560</u>
	<u>\$ 1,466,624</u>	<u>\$ 743,310</u>	<u>\$ 0</u>	<u>\$ 2,209,934</u>

5. CHANGES IN LONG-TERM DEBT

A summary of changes in general long-term debt follows

	Balance 4/1/03	Additions	Deletions	Balance 3/31/04
Note payable - fire truck	\$ 0	\$ 225,000	\$ 31,395	\$ 193,605

The Fire Board has obtained financing for the purchase of a new fire truck from a local bank. The note payable requires quarterly payments of \$12,233.50 including interest at 3.0% through July 1, 2008. The fire truck serves as collateral for the loan

The amounts needed to retire long-term debt at March 31, 2004, including \$14,364 interest, are as follows:

Year ended March 31,	2005	\$ 48,934
	2006	48,934
	2007	48,934
	2008	48,934
	2009	<u>12,233</u>
	Total	<u>\$ 207,969</u>

ADDISON FIRE BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

6. PENSION PLAN

Plan Description

During 2003-2004, the Fire Board adopted a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Fire Board participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan, 48917, or by calling (800) 767-6377.

Funding Policy

The Fire Board is required to contribute at an actuarially determined rate designed to accumulate sufficient assets to pay benefits when due. The current requirement is 8% of covered wages. The contribution requirements of the Fire Board are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Fire Board.

Annual Pension Cost

For the year ended March 31, 2004, (the initial year) the Fire Board's pension cost was \$9,351. The required contribution was determined as part of a September 1, 2003 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases based on an age-related scale to reflect merit, longevity and promotions. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Fire Board's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis.

Three-Year Trend Information

This information is not available since 2003-04 is the initial year of the Plan.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Normal Cost	Assets in Excess of AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/1/03	\$ 0	\$ 18,702	(\$ 18,702)	0%	\$ 104,000	18%

ADDISON FIRE BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

7. UNEMPLOYMENT TAXES

The Fire Board is a reimbursing employer to the Michigan Unemployment Insurance Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

8. RISK MANAGEMENT

The Fire Board is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as medical benefits provided to employees. The Fire Board has purchased commercial insurance for each of these areas as risk. There has been no significant reduction in insurance coverages and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

9. RESTRICTED FUNDS

The restricted portion of fund equity represents donations specifically earmarked by donors for construction of a fire station. These funds are being held in a separate bank account.

10. COMMITMENTS

The Fire Board has incurred costs of \$398,560 toward the construction of a new fire station. Work is schedule to be completed in the 2004-05 year, at an estimated remaining cost of \$140,000.

11. CONTINGENCIES

The Fire Department is in a billing dispute with an engineering firm related to services rendered for the new fire station project. After the engineer submitted a bill for \$54,000, the Fire Board contracted with another firm for considerably less. The Fire Board has paid \$10,000 and has offered to pay an additional \$30,000 to settle the matter. The \$30,000 is recorded as a liability on these financial statements.

12. SUBSEQUENT EVENTS

In November, 2003, the Fire Board received notification of a FEMA grant in the amount of \$119,230 for fire personnel breathing equipment. The equipment arrived and was put into service subsequent to March 31, 2004.

13. PRIOR PERIOD ADJUSTMENT

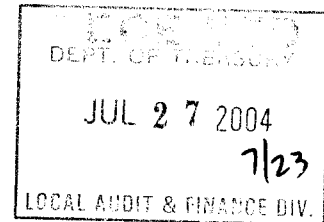
An adjustment of \$119,261 has been made on the Statemenrt of Revenue, Expenditures and Changes in Fund Balance to account for the 2002 property tax levy in Woodstock Township that should have been recorded as revenue in the 2002-2003 fiscal year.

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& Company, P.C.  
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July 1, 2004



Addison Fire Board  
Addison, Michigan

In connection with our audit of the Addison Fire Board for the year ended March 31, 2004, we would like to make the following comments and recommendations:

1. The Internal Revenue Service requires issuance of Form 1099 to individuals who receive payments for personal services in excess of \$600 in a calendar year. There were instances in calendar year 2003 where contractors received payments in excess of \$600 for work on the new fire station, but Forms 1099 were not issued.
2. During our review of payroll procedures, we noted that employee time cards did not show evidence of review and approval by a supervisor. Management indicated that the review and approval is taking place, but we recommend that the time cards be initialed by the supervisor to provide proper documentation.
3. Over the last two years, there have been numerous donations from individuals towards the construction of the new fire station. Internal Revenue Service substantiation requirements for charitable donations require a letter of acknowledgment from the recipient organization for any individual donation in excess of \$250. We recommend that the Fire Board consider sending letters for those contributions that exceeded the \$250 limit.
4. Per our recommendation, management has instituted a change in the method of accounting for the property tax payments from Woodstock Township. Normally, township governments collect property taxes in December, January, and February and submit payments to the respective agencies (schools, counties, etc.) as the taxes are collected. Woodstock Township does not begin making payments until May, in monthly amounts equal to one-twelfth of the total tax levy. Your previous practice was to record these payments as revenue as they were collected. As stated in your *Notes to the Financial Statements*, however, property taxes are "susceptible to accrual" - - they are measureable and available. Therefore, these financial statements reflect tax revenue (and a related receivable) for the 2003 taxes levied in Woodstock Township (\$115,431). A prior period adjustment was made to account for the 2002 tax levy. We recommend that the Fire Board request that Woodstock Township remit property taxes as they are collected rather than stretching payments out over twelve months.

5. In June, 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Fire Board's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Fire Board's activities, including reporting fixed assets and debt.

The general provisions of GASB No. 34 must be implemented by the Addison Fire Board no later than the fiscal year ending March 31, 2005. An important part of the implementation process is the adoption of a *capitalization policy* for fixed assets. The capitalization policy sets a dollar value for determining which assets will be formally tracked and depreciated in the accounting system. Generally, small governmental units are using a figure between \$1,000 and \$3,500. We recommend that the Fire Board formally act on a capitalization policy prior to the next audit.

If we can be of assistance regarding these recommendations, please contact our office.

Respectfully,

*Bailey, Hodshire & Company, P.C.*  
Bailey, Hodshire & Company, P.C.